

MEMO

DATE: November 18, 2003

TO: Administration Committee and Regional Council

FROM: Ed Paul, Internal Auditor
(213) 236-1905, paul@scag.ca.gov

RE: Audit & Best Practices Subcommittee Charter

EXECUTIVE DIRECTOR'S APPROVAL:



SUMMARY: Attached is the Audit and Best Practices Subcommittee charter. The Audit and Best Practices Subcommittee has reviewed and approved it at their October 30 meeting. It is presented to the Regional Council and Administration Committee for approval.

BACKGROUND: The Regional Council established the Audit and Best Practices Subcommittee reporting to the Administration Committee to assist the Regional Council in fulfilling its oversight responsibilities for SCAG's financial reporting, internal controls, annual external audit, and compliance with all applicable laws and regulations.

The Subcommittee charter was developed using guidelines proposed by the Institute of Internal Auditors and includes appropriate sections recognizing SCAG reporting relationships. A draft was reviewed and discussed at the October 2, 2003 Administration committee. Proposed changes were incorporated and discussed at the October 30, 2003 Audit & Best Practices Subcommittee meeting that included KPMG, SCAG's external auditor. The Subcommittee approved the attached document and it is now presented for approval by the Administration Committee and the Regional Council.

FISCAL IMPACT:

None
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AUDIT AND BEST PRACTICES SUBCOMMITTEE CHARTER

Purpose of the Subcommittee

To assist the Regional Council in fulfilling its oversight responsibilities for SCAG's financial reporting, internal controls, the annual external audit, and compliance with all applicable laws and regulations.

Authority

The Audit and Best Practices Subcommittee is a subcommittee of the Regional Council reporting to the Administration Committee and has authority to conduct investigations into any matters within its scope of responsibility after receiving approval from the Regional Council. It is empowered to:

- Oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Review all external auditing services for the Administration Committee.
- As needed, consider and recommend to the Administration Committee and the Regional Council the retention of independent counsel, accountants, or others to advise the Administration Committee or assist in the conduct of an investigation
- Seek any information it requires from employees—all of whom are directed to cooperate with the Subcommittee's requests—or external auditors, or outside counsel, as necessary.
- Meet with the Association's officers, external auditors, or outside counsel, as necessary.

Composition

The Audit and Best Practices Subcommittee will consist of at least three members of the Regional Council Administration Committee. The Regional Council President will appoint Subcommittee members and the Subcommittee chair.

Meetings

The Subcommittee will normally meet at least six times per fiscal year, with authority to convene meetings, as circumstances require. All Subcommittee members are expected to attend each meeting. The Subcommittee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold separate meetings with auditors (see External Audit Section below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

Responsibilities

The Subcommittee will carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and external auditors the results of the annual external audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to Subcommittee members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the Subcommittee under generally accepted auditing standards.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

Internal Control

- Consider the effectiveness of the Association's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Review with management and the internal auditor the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Review and approve the internal auditor annual workplan, including the nature and scope of the audits scheduled for the fiscal year.
- Receive and review draft internal audit reports, including findings and recommendations, directly from the internal auditor at the same time they are provided to SCAG management. Provide management an opportunity to comment on the report and follow-up on any corrective actions required.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor.
- On an as needed basis, meet separately with the internal auditor to discuss any matters that the Subcommittee or internal audit believes should be discussed privately.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination or audit effort with internal audit.
- Review the performance of the external auditors, and make recommendations to the Regional Council on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors about any relationships between the auditors and the Association, including non-audit services, and discussing the relationships with the auditors.

- On a regular basis, meet separately with the external auditors to discuss any matters that the Subcommittee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) or any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Obtain regular updates from management and the Chief Counsel regarding compliance matters.

Reporting Responsibilities

- Regularly report to the Administration Committee about Subcommittee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the Regional Council.
- Review any other reports the Association issues that relate to Subcommittee responsibilities.

Other Responsibilities

- Perform other activities related to this charter as requested by the Regional Council and Administration Committee and oversee special investigations as needed.
- Review and assess the adequacy of the Subcommittee charter annually, requesting Regional Council approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

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AUDIT AND BEST PRACTICES SUBCOMMITTEE CHARTER

Purpose of the SubCommittee

To assist the Regional Council in fulfilling its oversight responsibilities for the SCAG's financial reporting, internal controls, the annual external audit, and SCAG's compliance with all applicable laws and regulations.

Authority

The Audit and Best Practices SubCommittee is a subcommittee of the Regional Council reporting to the Administration Committee and has authority to conduct ~~or authorize~~ investigations into any matters within its scope of responsibility after receiving approval from the Regional Council. It is empowered to:

- ~~Appoint, compensate, and oversee~~ the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- ~~Pre-approve~~ Review all external auditing services for the Administration Committee.
- ~~As needed, consider and recommend to the Administration Committee and the Regional Council the retention of~~ Retain independent counsel, accountants, or others to advise the Administration Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees—all of whom are directed to cooperate with the ~~Committee's~~ Subcommittee's requests—or external auditors, or outside counsel, as necessary.
- Meet with the Associations officers, external auditors, or outside counsel, as necessary.

Composition

The Audit and Best Practices ~~Committee-Subcommittee~~ will consist of at least three ~~and no more than six~~ members of the Regional Council Administration Committee. The Regional Council President will appoint ~~Committee-Subcommittee~~ members and the ~~Committee-Subcommittee~~ chair.

Meetings

The ~~Committee-SubCommittee~~ will normally meet at least six times ~~a-per~~ per fiscal year, with authority to convene meetings, as circumstances require. All ~~Committee-Subcommittee~~ members are expected to attend each meeting. The ~~Committee-Subcommittee~~ will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold ~~private-separate~~ meetings with auditors (see External Audit Section below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

Responsibilities

The ~~Committee-Subcommittee~~ will carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and external auditors the results of the annual external audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to ~~Committee Subcommittee~~ members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the ~~Committee Subcommittee~~ under generally accepted auditing Standards.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

Internal Control

- Consider the effectiveness of the Association's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Review with management and the internal auditor the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Review and approve the internal auditor annual workplan, including the nature and scope of the audits scheduled for the fiscal year.
- Receive and review draft internal audit reports, including findings and recommendations, directly from the internal auditor at the same time they are provided to SCAG management. Provide management an opportunity to comment on the report and follow-up on any corrective actions required.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor.
- On an as needed basis, meet separately with the internal auditor to discuss any matters that the ~~Committee Subcommittee~~ or internal audit believes should be discussed privately.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination or audit effort with internal audit.
- Review the performance of the external auditors, and ~~exercise final approval~~ make recommendations to the Regional Council on the appointment or discharge of the auditors.

- Review and confirm the independence of the external auditors by obtaining statements from the auditors ~~and about any~~ relationships between the auditors and the Association, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the ~~Committee Subcommittee~~ or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) or any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- ~~Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.~~
- Obtain regular updates from management and the Chief Counsel regarding compliance matters.

Reporting Responsibilities

- Regularly report to the Administration ~~Committee~~ ~~Committee~~ ~~about about~~ ~~Committee Subcommittee~~ activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the ~~board of directors~~ Regional Council.
- Review any other reports the Association issues that relate to ~~Committee Subcommittee~~ responsibilities.

Other Responsibilities

- Perform other activities related to this charter as requested by the Regional Council and Administration Committee and oversee special investigations as needed.
- ~~Institute and oversee special investigations as needed.~~
- ~~Review the Executive Director's travel authorizations and reimbursements quarterly.~~
- Review and assess the adequacy of the ~~Committee Subcommittee~~ charter annually, requesting Regional Council approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

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